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TODAY

ISSUES AND ANSWERS

The *American Banker's* second annual cash management survey of the nation's top 100 banks tracks this young but fast-changing business.

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Surveying the Cash Management Horizon

Workstations Called 'Flop'; Fees Seen on Deposit Float

By TOM FERRIS

NEW YORK — The bankers who sell cash management services to U.S. corporations have spoken:

- Treasury workstations are a flop.
- Charges for deposit float are on the horizon.
- Fees for hourly account overdrafts may be coming.
- The need to provide companies with broad-based financial data is uncertain.

Those are some of the main findings of the *American Banker's* second annual survey on cash management. Seventy-three of the nation's 100 largest banks took part in a 20-question poll about the profitability of operating services and trends in the industry.

One finding was that corporate treasurers may be facing additional charges within the next few years.

About three out of five banks said they expect to see charges imposed on companies for deposit float, which occurs between the time when a check is deposited and the time when it is cleared. Items in the process of collection are booked as a nonearning asset and drag down a key bank profitability ratio, causing institutions to consider imposing a fee for it.

The respondents were less sure if banks will start charging corporate cus-

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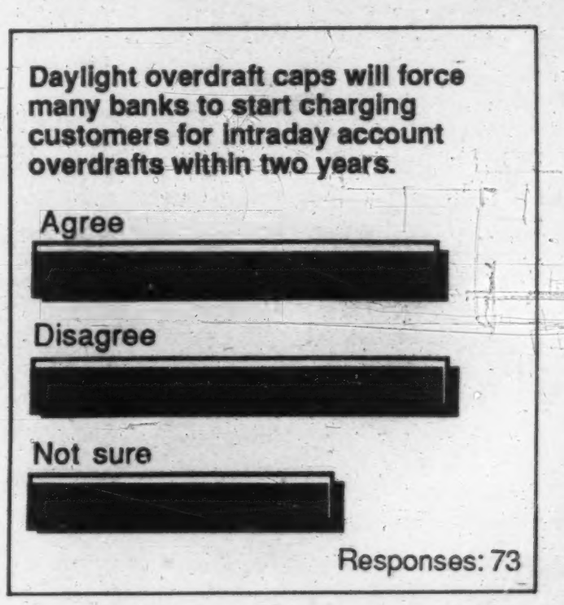
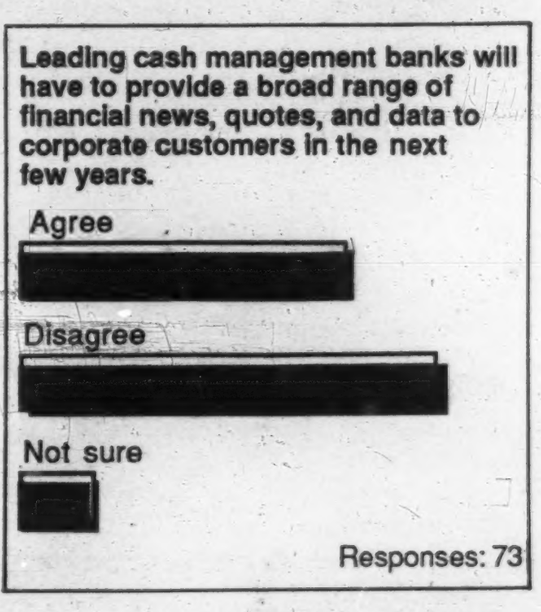
How Banks Feel About Some of the Issues


Daylight overdraft caps will force many banks to start charging customers for intraday account overdrafts within two years.
Agree
Disagree
Not sure
Responses: 73


Leading cash management banks will have to provide a broad range of financial news, quotes, and data to corporate customers in the next few years.
Agree
Disagree
Not sure
Responses: 73

Comptroller Sees More Aid to Banks in Tough Days to Come

By JAY ROSENSTEIN

WASHINGTON — Comptroller of the Currency Robert Clarke said Wednesday he expects more banks to apply for federal aid to keep their doors open.

In a wide-ranging interview, Mr. Clarke said he supports the recent moves by the Federal Deposit Insurance Corp. to make assistance available to open banks, something rare in the history of the FDIC. Four banks this year have been given such assistance from the FDIC. The agency's Aug. 15, $130 million assistance plan for BancOklahoma Corp. is considered a prototype for future assistance packages.

But Mr. Clarke, who as Comptroller serves as a member of the FDIC's three-member board, added that he expects the government to be "very tough" in its selection process and its demands in exchange for the aid.

Robert Clarke

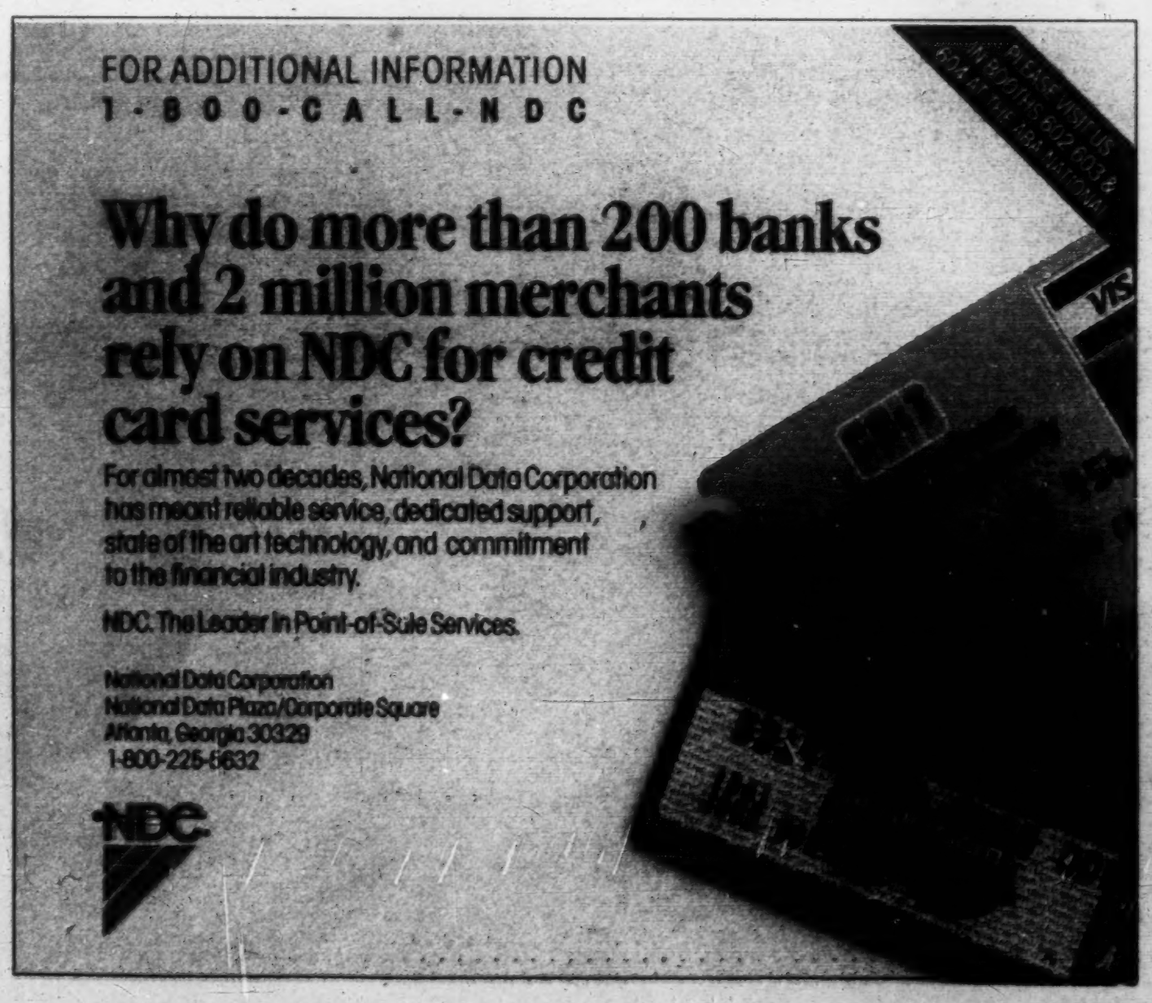
"I don't think we want to be in the position of just writing a lot of checks to banks just to keep them propped up," he said.

In the interview, the national bank regulator said "there is no doubt there is an interesting time ahead for the industry because we're definitely not out of the woods. There are still lots of problem banks out there.

"Fortunately, I think that a lot of the banks are dealing with their problems and some progress is being made, but it's going to be slow. You're going to see some low earnings and some more losses for some time to come, but that doesn't mean that most of the banks won't be able to withstand the pressure."

Mr. Clarke also disclosed that the FDIC is working on guidelines that could clarify what kinds of open-bank assistance the FDIC would consider and the possible terms of such aid. "To some extent, the rules are being made up as we go along because each deal is unique, each proposal has different features to it," he said. "The rules are sort of evolving and I don't know we

Clarke: Page 20 ➡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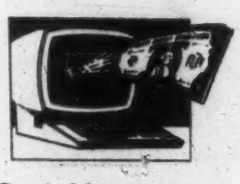
PULL OUT AND SAVE

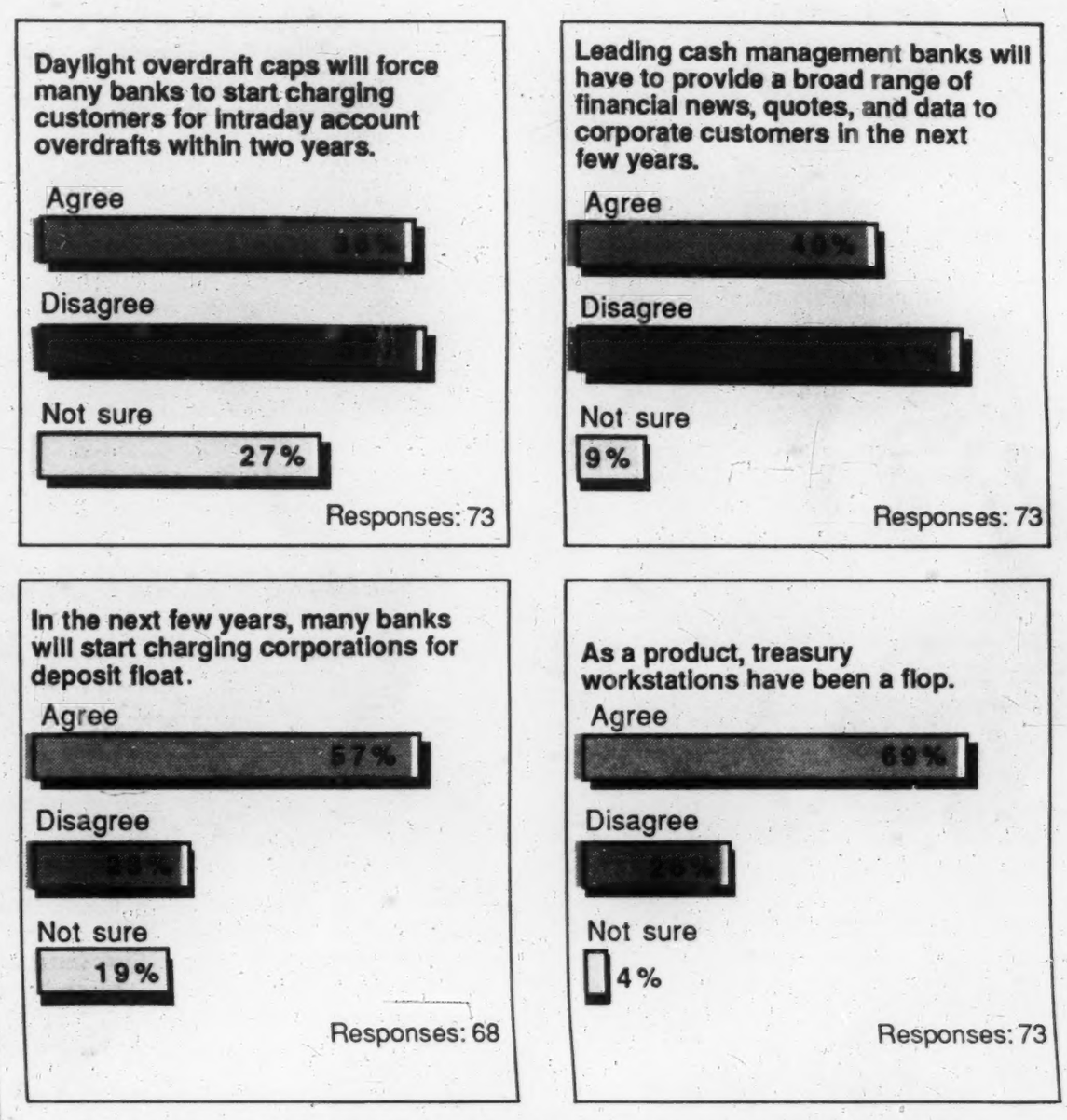
ISSUES AND ANSWERS

CASH MANAGEMENT REVIEW



Cash Management

When interest rates went through the roof in the late 1970s, cash management techniques thrived. Banks started marketing a broad array of operating services to help firms maximize the value of cash assets. To track the latest trends in this young but fast-changing business, the American Banker conducted its second annual cash management survey of the Top 100 banks. Here are the results.



Some findings of American Banker's cash management survey.

By Tom Ferris

THE BANKERS WHO sell cash management services to American corporations have spoken:

- Treasury workstations are a flop.
- Charges for deposit float are on the horizon.
- Fees for hourly account overdrafts may be coming.
- The need to provide companies with broad-based financial data is uncertain.

Those are some of the main findings of the *American Banker's* second annual survey on cash management. This year's poll was expanded beyond profitability issues to include questions on trends in the profession. Along with revealing their marketing strategies and most profitable services, the nation's 100 largest banks were asked to comment on possible changes in the years ahead.

AN American Banker SURVEY

One finding is that corporate treasurers may be facing additional charges not that far down the road.

About three out of five banks said that in the next few years they expect to see charges being imposed on companies for deposit float, which occurs between the time when a check is deposited and cleared. Items in the process of collection are booked as a nonearning asset and drag down a key bank profitability ratio, causing institutions to consider imposing a fee for deposit float.

The respondents were less sure whether banks will start charging corporate customers for account overdrafts that occur during the business day. More than one-third thought that such charges are likely within two years, in the wake of the recently enacted Federal Reserve Board policy that limits intraday bank overdrafts. But just as many disagreed. And a large segment — 27% — said they were not sure.

Two out of five institutions felt that in the next few years, leading cash management banks will have to provide customers with a broad range of financial information not directly related to underlying transactions or accounts — such as business news and market rates. But 51% disagreed. The remaining 9% were unsure. One-quarter of the banks said they already supply some broad-based data.

The biggest loser in the survey was treasury workstations — the automated treasury management systems that banks have been selling to corporations for the last few years. More than two-thirds of the 100 largest banks agreed that the product has been a "flop." The workstation did retain some support among the Top 25 banks, half of which disagreed it was a failure. Of the banks offering the product, 86% said they did not show a profit on it last year, and the systems have been downgraded as a marketing priority, according to the survey.

Seventy-three of the nation's 100 largest banks with cash management departments responded to the *American Banker* survey on cash management, which was mailed in July. Among the participants were 20 of the largest 25 institutions, based on deposits, and 7 of the Top 10.

The survey's questions on profitability found that:

- Controlled disbursement was the most profitable cash management service at almost one-quarter of the Top 100 banks, while wire transfers tended to have the largest profit margin.
- Lockbox services top the marketing agendas at one out of three banks.
- Sixty-six percent of banks have their accounting systems track the profitability of individual cash management services, up from 58% last year.

(See related stories. The tabular results of the survey, broken down by bank size and by region, appear on page 16.)

Treasury Workstations

The hottest item in cash management a couple of years ago, treasury workstations, are fizzling, from all indications. Last year, 30% of the Top 100 banks said that workstations were at the top of their list of marketing priorities; this year, only 4% said so. Six of the 19 largest banks responding to the survey said they do not sell workstations, and of the 13 that do, 10 did not make a profit on the product in 1985.

The strongest signal of discontent with the automated management systems came in reaction to the statement, "As a product, treasury workstations have been a flop" — 53% of the respondents agreed with that assessment, and another 16% agreed "strongly." Twenty-two percent disagreed, 4% disagreed "strongly," and the remaining 4% was "not sure."

There was more support for the product among the Top 25 banks, with half of them disagreeing it was a failure. Banks in the West also tended to defend the product more than their peers in other regions.

The survey found a wide divergence in strategy towards the workstations, which operate via microcomputers and automatically dial a corporation's banks to collect balance and transaction data for analysis.

Twenty percent said they offer the product aggressively on a stand-alone basis, 27% said they offer it defensively on a stand-alone basis, 21% said they offer it only in conjunction with other products, 22% said they don't offer it but will support the use of workstations sold by other banks or vendors, and the remaining 10% said they had no strategy.

Of those that said they offer treasury workstations aggressively, only 29% agreed they have been a flop. But among those that offer the product defensively, 79% thought it was a failure.

Deposit Float

Over the last several years, the return-on-assets ratio has become a key measurement of profitability for analysts studying bank financial statements. That has prompted institutions to scrutinize the nonearning assets on their balance sheets. One category is "items in the process of collection" — that is, deposited checks of customers that have not cleared.

Even though payment has not yet been received from the checkwriters' banks, the items in collection are counted as part of the institution's gross demand deposits, meaning that reserves have to be set aside and federal deposit insurance fees must be paid. In addition, the return-on-asset ratio is lowered.

Cash management banks that clear checks for corporate customers can incur large amounts of deposit float. Traditionally, they have not charged direct fees for such float. Some regard it as a cost of being in the business, while others find indirect ways of recovering costs, such as delaying availability after checks clear.

But earlier this year, Morgan Guaranty Trust Co. reportedly starting charging a fee of 25 basis points to customers that create a daily average of $10 million or more in deposit float. (The policy is said to affect relatively few customers.) Other banks might pick up on the idea, according to the survey.

Fifty-one percent of the respondents agreed, and another 6% agreed "strongly," that "in the next few years, many banks will start charging corporations for deposit float." Only 23% disagreed. The remaining 19% was "not sure."

Banks ranked in size between 26 and 100 were a little more likely than their larger counterparts (60% versus 50%) to agree with the statement.

Overdraft Charges

An overwhelming 93% of banks agreed that the imposition of limits on

Continued on Next Page

Tom Ferris is a staff writer for the American Banker.

OTHER SURVEY RESULTS

Continued from Previous Page

intraday bank overdrafts has been a "nonevent" for corporate customers. The overdraft caps, which took effect in March, limit the amount a bank can go into the red during the day while transferring funds.

There had been fears that the limits might slow the processing of wire transfers and delay transactions, but there has been little, if any, impact so far on corporations, judging by the survey results.

The Federal Reserve Board set relatively high overdraft limits initially, so that disruption of the wire-transfer market would be minimized. After gaining working experience, the Fed plans to reduce the limits further, perhaps in phases.

This has raised the possibility that banks, facing stricter limits on intraday overdrafts in their reserve accounts at the Fed, might start charging corporations for deficits in their accounts, even though the overdrafts might last for only a couple of hours or less. Big customers now often overdraw accounts during the day, knowing that anticipated incoming funds will cover the overdrafts in short order.

Asked if such charges might come about within two years, 36% of Top 100 banks thought they might, with 37% disagreeing. Reflecting the uncertainty in the marketplace, more than one-quarter of the banks replied they were "not sure."

A higher proportion of the Top 25 banks thought such charges were likely — 50% — and banks in the Northeast and West were also more liable to agree.

Financial Data

That technology will push large banks into the information business has almost become an axiom of the industry. Is it true? Not necessarily in the short run, according to the survey.

One-quarter of the respondents said they now provide customers with at least some information other than account and transaction data. This information, which might include foreign exchange rates, other market rates, or business news headlines, is delivered over a computer terminal. The percentage moves up to about 40% for banks in the Top 25, the Northeast, and the West.

But 51% disagreed that "leading cash management banks will have to provide a broad range of financial news, quotes, and data to corporate customers in the next few years." Forty percent agreed, and the remaining 9% were unsure. The findings were roughly the same for Top 25 banks and institutions ranked from 26 to 100 in size. ■

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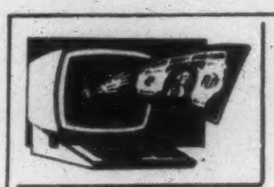
CASH MANAGEMENT REVIEW

The New Commandment: Thou Shalt Be Profitable

More banks track the earnings of individual products; controlled disbursement, wire transfers top profit list.



Which service generated the highest net profit in 1985? (In percent)

	Overall 1985	Overall 1984	Top 25 1985	26-100 1985
Controlled disbursement	23%	26%	9%	33%
Wire transfer	21	27	18	23
Account reconciliation	20	19	23	17
Balance reporting	12	10	12	12
Lockbox	12	8	6	15
Zero-balance account	6	3	15	0
Other	7	7	17	0
Responses	43	41	17	26

By Tom Ferris

PROFITABILITY HAS become *the* buzzword at cash management departments. Products once offered as loss leaders to bring in loan business are increasingly being required to bring in revenue. The result is greater attention to pricing, costs, and accounting.

This trend, borne out by last summer's *American Banker* survey on cash management, was underscored again this year. Asked what would be the single most important issue or problem in the field over the next 12 months, bankers repeatedly cited profitability.

The responses sometimes took on a passionate tone. One officer at an East Coast bank said the key issue is "product-line profitability and the importance for well-managed banks to diligently identify their real costs for performing services and have the guts to price their products to make a handsome profit."

He continued: "This is a real problem, because banks have traditionally been afraid to charge properly for work done. In many instances, some bankers would rather not know what it really costs to produce the service, because they would rather not make waves. That's just the kind of logic that wins the battle but loses the war — idiotic."

The move toward stand-alone profitability of products has been prompted to a large degree by changes in the lending market. Fierce competition from foreign banks and from commercial paper issued by corporations have slashed the profit margins of loans and forced U.S. banks to take a new look at noninterest sources of income. Many institutions have turned to cash management services as one potentially lucrative area.

Evidence that banks are getting a better handle on costs and revenues comes from the survey finding that 66% of the Top 100 banks have accounting systems that track the profitability of individual cash management services, up from 58% last year. Among the 25 largest banks, 95% follow the profitability of individual services. For banks ranked from 26 to 100 in size, 55% track specific products, up from 47% last year.

The survey found virtually no change from a year ago in the formal accounting strategies of banks. A little more than half have set up their cash management departments as cost centers, which focus on tracing and accumulating expenses, but not direct revenues.

The others, totaling 46%, audit both revenues and costs to various degrees. This group consists of two segments — 17% said they were set up as profit centers, while the other 29% are "shadow" profit centers. For profit centers, direct profitability is a key goal and is an important consideration in operating decisions. Shadow profit centers are a hybrid category in which revenues and expenses are monitored, but only on a pro-forma basis for illustrative purposes. Unlike profit centers, these departments do not have control over all operating costs, such as overhead expenses.

Most Profitable Services

Once again, the same three services headed the list as most profitable at the 100 largest banks. Controlled disbursement generated the highest net profit at 23% of the banks, wire transfers at 21%, and account reconciliation at 20%.

In last year's survey, which measured profitability for 1984, wire transfers were cited most often as the top profit-maker (27%), followed by controlled disbursement (26%), and account reconciliation (19%).

Among the Top 25 banks, account reconciliation was most profitable. But at the next 75 institutions, one out of three cited controlled disbursement. And in the Southeast, controlled disbursement was most profitable at seven out of 12 banks. (Controlled disbursement provides a special checking account that enables a corporation to learn early in the day how many of its checks will clear, enabling accounts to funded exactly and excess funds to be invested.)

Almost one out of four banks said that wire transfers had the highest gross profit margin among cash management products, while one out of five cited controlled disbursement. Last year, 29% cited controlled disbursement and 18% said wire transfers.

The survey asked about the profitability of four services that fared poorly last year. Some 17% of the respondents said they failed to make a profit on wholesale lockboxes, and about half lost money on automated clearing house applications. Of those offering consulting, almost three out of four did not make a profit for the service, while treasury workstations did not generate a profit for 86%.

Sixty percent of the respondents do not offer consulting services, and about one-quarter said they do not sell workstations. ■

Survey: Hutton Case Not Overblown

But episode didn't prompt many to alter customer pacts.

America's bankers evidently took the E.F. Hutton check overdraft case seriously.

Only 19% of the 100 largest banks agreed that the scandal was "overblown" and that Hutton's cash management practices "were not as flagrant as the Justice Department claimed."

By contrast, 43% disagreed with that assessment and another 23% "disagreed strongly."

The remaining 15% indicated they were not sure whether they agreed or disagreed with the statement.

The brokerage house's guilty plea in May 1985 to overly aggressive cash movement activities touched off a whirlwind of publicity about the cash management profession. After months of headlines and Congressional hearings, many bankers and cash managers privately complained that the crime was being exaggerated.

But according to the *American Banker* survey, the banking industry by and large disagrees that the scandal was overblown. The feeling was especially strong at Top 25 banks, where 35% disagreed strongly and another 30% disagreed. At banks ranking in size from 26 to 100, 19% disagreed strongly and 47% disagreed. Only 1 of 73 respondents "agreed strongly" with the statement.

Even though the industry viewed Hutton's abuses as serious, only one-quarter of the respondents said the incident prompted them to review, change, or implement formal operating agreements or contracts with corporate customers. ■

Planning Ahead

Lockboxes are top marketing priority at 32% of banks; workstations fizzle.

Lockbox services once again will figure prominently in the marketing budgets of many cash management departments over the next year. But treasury workstations will take a back seat.

Last summer, almost one-third of the nation's 100 largest banks cited treasury workstations as the product they would spend the most money on marketing in the following 12 months. But in this year's *American Banker* survey, only 4% singled out workstations.

The money taken away from the automated treasury management systems will be directed instead toward products that, according to the survey, are far more profitable. Almost one-quarter of the respondents — twice as many as last year — said that the largest share of their marketing budgets would go toward balance reporting services, while 12% have targeted controlled disbursement as their top item, up from 2% in last year's survey.

Remittance processing, or lockbox, services again were cited as the top budget item by the most banks — 32% — virtually the same as last year.

There were some variations by region. Lockboxes were the top budget item in the Southeast (42%) and West (34%), while balance reporting was mentioned most often in the Northeast (31%), and automated clearing house applications (35%) in the Midwest.

By the resounding margin of 6 to 1, the Top 100 banks disagreed that sharply lower interest rates have hurt their cash management business significantly.

Asked to react to this statement — "The dramatic decrease in interest rates has made it much harder to sell cash management services" — 84% objected.

The survey also found that sales and marketing budgets continue to swell. This trend, at a time when banks are trying to curb noninterest expenses, indicates that cash management business is being given a high priority.

One-quarter of the banks increased marketing expenditures during the last year by more than 20%, while an additional one-third boosted spending by at least 10%. Over all, 84% increased their budgets. Banks in the Top 25 and the Northeast tended to have smaller increases than other institutions.

Only 11% of the banks indicated that their cash management sales forces were part of their lending departments, while 79% said their salesmen were part of separate cash management areas. Ten percent gave other answers. ■

Which cash management service will your bank spend the most money on marketing in the next twelve months?

(In percent)

	Overall 1986	Overall 1985	Top 25 1986	26-100 1986
Lockbox	32%	31%	19%	37%
Balance reporting	23	12	12	26
ACH	16	17	16	17
Controlled disbursement	12	2	19	9
Account reconciliation	6	4	6	6
Treasury workstation	4	30	16	0
Other	7	4	12	5
Responses	64	52	16	48

1987 Agenda: Profits, Risk

What's on the minds of bankers who sell cash management services?

The *American Banker* survey asked the nation's largest banks what would be the most important issues or problems in cash management over the next 12 months, and they provided a surprisingly long laundry list of topics.

Here is a sample of the responses:

Profitability
- pricing products profitably
- the implications of product profitability for future product development and investment
- declining profit margins
- the cost of maintaining sales/product support effort

Risk
- wire-transfer risk
- the second-phase reduction of daylight overdraft caps
- properly assessing the risks in cash management services

Technology
- justifying real-time systems
- keeping pace with technological changes in order to retain and grow market share
- the development or purchase of in-house information reporting systems by banks that have used vendors
- microcomputer access to banks

Interest Rates
- the effect of low interest rates
- fighting the idea that lower rates lessen the need for cash management

Automated Clearing House
- whether the Federal Reserve will impose transaction limits to reduce risk
- the need for a continued strong emphasis to convert from paper-based system to electronics

Deregulation
- banks deciding to leave a market due to low demand, too many suppliers

Mergers
- combining systems and products of merged institutions
- servicing customers of newly merged banks effectively. ■

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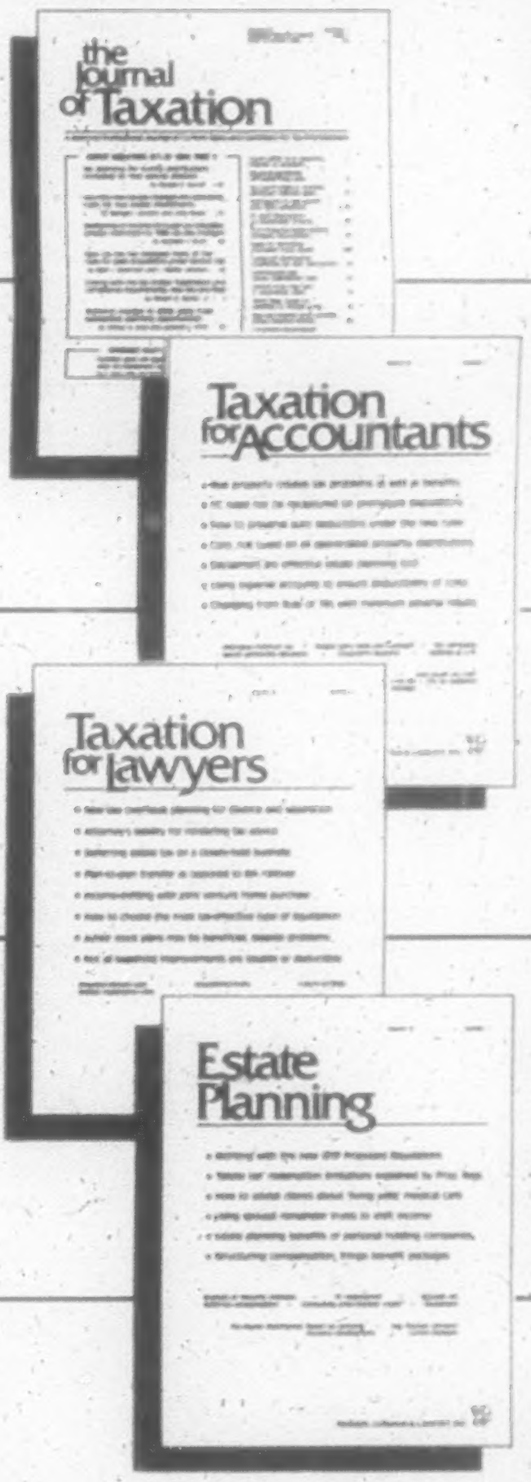

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